

To: Edmund Ward[Edmund.Ward@ofgem.gov.uk]; Katy Read[Katy.Read@ofgem.gov.uk]; Teri Clifton[Teri.Clifton@ofgem.gov.uk]
Cc: Hughes, Seamus[Seamus.Hughes@detini.gov.uk]; Willis, Adele[Adele.Willis@detini.gov.uk]
From: Wightman, Stuart
Sent: 2015-09-03T14:26:49Z
Importance: Normal
Subject: FW: Submission Decision SUB-1075-2015 : ETI Committee RHI - Introduction of Cost Control Measures & Ensuring Effective Administration of Domestic Scheme
Received: 2015-09-03T14:27:01Z
[Annex A - Final Policy Paper on RHI Proposals \(July 2015\).docx](#)

Edmund / Katy / Teri

As promised, I attach a copy of our Final Policy for the tariff changes we're introducing in November. Our Minister has just cleared these proposals.

As I previously mentioned, our original Business Case approval for the Non Domestic RHI scheme only covered the period up to 31 March 2015. I'm currently finalising a Business Case to extend the scheme approval (new applications) from 1/4/15 to 30/9/16. We have been asked to complete a review of the RHI (including introducing digression) before we can request a further extension beyond Sep 2016.

As part of this Business Case, I want to secure approval to extend the current arrangements with Ofgem for a further 5 years until March 2020. To facilitate this, I need to provide an estimate of how much Ofgem's administration costs are likely to be for the next 5 years. Would it be possible to provide a forecast on how overall (GB&NI) no domestic RHI administration costs are likely to increase. I could then take 3% of the overall figure each year as the NI figures. For example, would it be reasonable to assume a 10% year in year increase?

I need to get this Business Case off to our Department for Finance and Personnel before the close of play on Monday, so could I please ask for these estimates by cop tomorrow.

Thanks

Stuart



Department of Enterprise,
Trade and Investment

The Northern Ireland Renewable Heat Incentive

**Response to consultation on phase 2 proposals and final
policy on CHP and Cost Control**

September 2015

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Background

Final policy on phase 2 proposals for
CHP and Cost Control in the Northern
Ireland Non Domestic Renewable
Heat Incentive

Background

On 22 July 2013, DETI launched a public consultation on Phase 2 of the Northern Ireland Renewable Heat Incentive (RHI). These proposals included the following main elements:-,

- The introduction of the domestic RHI
- Cost control measures to manage future RHI expenditure
- Biomass sustainability and Emission control requirements
- Expansion of the non domestic RHI to include new tariffs and technologies

The consultation ran for 12 weeks and as part of the process, DETI held stakeholder events in Armagh, Belfast and Coleraine. These were attended by nearly 100 people and were useful in gauging opinions regarding the draft proposals. The consultation closed on 14 October 2013 and 50 responses were received, two of which offered no comment. All responses received are available on the DETI website.

The domestic scheme was introduced on 9 December 2014 and the remainder of the phase 2 proposals are under consideration. Some of these proposals including the introduction of support for new technologies will be taken forward at a later date

This paper seeks to respond to the comments received relating to the non domestic RHI proposals for combined heat and power (CHP) and cost control measures and sets out the Department's final policy position and the next steps in terms of implementation.

1. EXPANSION OF THE NON DOMESTIC NI RHI

ISSUE: BIOMASS AND BIOLIQUID COMBINED HEAT AND POWER

Original Proposal

- 1.1 Biomass and bioliquid Combined heat & Power (CHP) is currently incentivised under the NIRO, with CHP that is accredited in receipt of an additional 0.5 ROC uplift. DETI had indicated that from October 2015 the 0.5 ROC uplift will be withdrawn – and CHP projects accredited after this date would be eligible for the relevant electricity only ROC level together with the appropriate RHI tariff. This position is largely consistent with GB
- 1.2 In developing an appropriate CHP tariff under the non domestic RHI, DETI has assumed an investment lifetime of 10 years and a plant lifetime of 20 years. DETI is proposing a tariff of 3.5 p/kWh for new biomass and bioliquids CHP systems.
- 1.3 In addition to the tariff for new CHP systems, DETI proposes to introduce a second tariff for existing fossil fuel CHP systems that wish to convert to renewable CHP. For existing fossil fuel CHP sites' converting to renewable fuelled CHP the proposed tariff is 1.7 p/kWh.
- 1.4 DETI expects heat from renewable CHP sites to provide a significant contribution towards the development of the renewable heat market and the achievement of the renewable heat target.

Stakeholder Response

- 1.5 There was general agreement with the proposals. One respondent expressed concern that two separate tariffs (one for conversion) will increase risk of gas CHP converting to renewables – but in fact the opposite is likely to be true because if there was one tariff it would be the 3.4pence and therefore conversion would be more attractive.

Final Policy

- 1.6 Two new non domestic RHI CHP tariffs will be introduced, 3.5 pence per kWh for new systems and 1.7 pence per kWh for those converting from fossil fuels. The response to the public consultation and subsequent engagement with the industry has confirmed significant interest in this tariff. Large CHP plants have a significant role to play in meeting RHI targets. The new tariff will be in place to coincide with the removal of the 0.5ROC uplift from October 2015.

SUMMARY OF KEY POINTS

- A tariff of 3.5 pence per kWh will be introduced for new biomass and bioliquid CHP installations.
- A tariff of 1.7 pence per kWh will be introduced for biomass and bioliquid CHP installations converting from fossil fuels.
- The new tariffs are to coincide with the removal of the 0.5 ROC uplift for heat from CHP from October 2015.

2. COST CONTROL

ISSUE: COSTS CONTROL

Original Proposal

- 2.1 The original DETI proposal was to introduce a number of annual trigger points that would provide forewarning to potential applicants that committed RHI expenditure was approaching the set budget limit. Depending on the level of in-year expenditure /application numbers, DETI would implement administrative measures to manage curtail demand / applications numbers including ultimately closing both schemes to new applications until the following year.

Stakeholder Response

- 2.2 Several responses were received on this issue. There was a concern expressed that a trigger method of budget management could be viewed as a disincentive and cause further uncertainty in the market. Comment was also made that confirmation was required that any suspension of the scheme would only apply to new applications and not existing accreditations. The need for good clear advance warning with guidance and parameters for any cost control measures was also emphasised.

Final Policy

- 2.3 Levels of uptake on the non domestic RHI scheme have increased significantly over the last 12 months with total applications increasing from 130 to over 800. Committed monthly expenditure is now over £1.4m. Cost control measures now need to be introduced to ensure future budgetary levels wouldn't be breached and to ensure the scheme continues to be affordable and provide value for money.
- 2.4 The Department for Energy and Climate Change (DECC) has introduced an annual system of tariff digression in both GB RHI schemes. Work is ongoing to develop suitable systems of digression/reduction for the NI RHI schemes. The detail on these will be published at a later date. However, to control expenditure and ensure continued value for money in the interim, DETI is introducing a tiered RHI tariff structure from 5 October 2015 for biomass heating systems. This will apply to non-domestic biomass installations made on or after 5 November 2015. The first 1314 hours will be paid at the standard tariff with a reduced tariff of 1.5 pence per kWh applied thereafter. It is expected that the higher tier will cover the capital cost and the reduced tier the ongoing running costs.

- 2.6 Currently the non domestic medium biomass tariff reduces from 6.4 p to 1.5 p for installations over 99kW. In the GB Non Domestic RHI scheme, the equivalent biomass tariff reduces at 200kW. The majority of applications to date to the NI RHI scheme have been for 99kW biomass installations. DETI is therefore proposing to extend the existing 6.4p biomass tariff banding (20-99kW) to installations above 99kW in size. The maximum installation size in the revised tariff banding will be 199kW. In addition a cap of 400,000kWh will be applied as a maximum annual heat payment. Any additional heat over this cap will not be eligible for payments.

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To: Jane Pierce[Jane.Pierce@ofgem.gov.uk]
From: Katy Read
Sent: 2015-09-03T14:48:21Z
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Subject: FW: Submission Decision SUB-1075-2015 : ETI Committee RHI - Introduction of Cost Control Measures & Ensuring Effective Administration of Domestic Scheme
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[Annex A - Final Policy Paper on RHI Proposals \(July 2015\).docx](#)

FYI...

-----Original Message-----

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